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How opening up regional airports to international flights would benefit tourism and stimulate rural economies

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TOURISM NEEDS MORE INTERNATIONAL AIRPORTS

Manufacturing is declining. The mining investment boom is waning. Against the backdrop of an economy in transition, tourism continues to emerge as one of the foundations of Australia's future prosperity.

The significant potential of Australia's tourism industry was highlighted in the recent Deloitte Access Economics report, *Positioning for Prosperity*. The report identified tourism as one of Australia's five super growth industries capable of collectively delivering an additional $250 billion to the national economy over the next 20 years[1.]

Australian tourism offers high-employment opportunities, a rapidly expanding customer base and a strong competitive advantage. Already, tourism is Australia's largest service export, employing almost twice as many people as the mining industry, and generating expenditure in excess of $100 billion every year - more than all our primary industries combined.

Unlike those industries, however, there is still significant room for growth in tourism.

The federal government, along with those from all the states and territories, has endorsed an aggressive tourism target as part of the Tourism 2020 strategy. Very strong growth in Asian visitor spending, the fastest growing segment of Australia's visitor economy, underpins the target of doubling nominal overnight visitor spending from $70 billion in 2009 to $115-140 billion by 2020. But at the moment even the lower end of the range seems out of reach.

One opportunity to grow international tourism is to open up additional ports of entry. The combination of a growing critical mass of travellers, a strong preference for direct flights and the lower operating costs associated with new long-range aircraft, means point-to-point traffic is set to be a growth area in aviation globally[2]. Yet Australia is currently ill-equipped to take advantage of this shift, with international entry restricted to eight airports.

It is Australian government policy to open up regional ports to international flights[3]. The 2009 aviation white paper A Flight Path to the Future, which received bipartisan support, was later built upon by the Coalition's *Policy for Aviation* ahead of the 2013 federal election, which pledged support for both further liberalisation of international air services and also a promotion if the economic impact airports make to regional communities.

However, no new international airports have been formally designated in the five years since the aviation white paper was published, despite a successful seasonal trial between Auckland and Sunshine Coast airports now extending into its third year[4].

The Tourism & Transport Forum believes there to be significant latent demand in the market for new, direct services. Chiefly we see the opportunity coming from New Zealand, where destination fatigue has created a market keen to sample new regions on Australia's east coast for short breaks, business and conventions.

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[1] Deloitte Access Economics, *Positioning for Prosperity? Catching the next wave*, 2013
[2] *Bronski, Peter & ruskc, Greg. Getting to the Point: Why air travel is ripe to migrate from hub-and-spoke to point-to-point.. Outlet Rocky Mountain Institute January 2013*
[3] Appendix A, *Flight Path to the Future* National Aviation Policy White Paper, Australian Government, December 2009
[4] *Air New Zealand flights to continue with extended seasons*, Media release, Sunshine Coast Council, 9 December 2013

However, there may also be opportunities to link northern and Western Australian airports with Asia via the Indonesian hub of Denpasar.

Some examples of the missed tourism opportunity are:
- **Hunter Valley** conference organisers need direct services to New Zealand to attract Australasian events
- **Townsville** airport could link to Asia via international flights to regional hubs like Denpasar
- Governmental traffic to **Canberra** from both New Zealand and Asia would be eased by direct flights
- High end tourism to **Hamilton Island** would benefit from direct services to Auckland
- Opening up a second West Australian international airport in **Broome** would attract Asian short breaks
- **Hobart** could welcome seasonal services from China and other high-growth tourism sources
- **Avalon Airport's** role as second Melbourne Airport could be secured through international services

New airports stimulate the market

As has been demonstrated elsewhere in the world, airlines can create entirely new catchment areas to stimulate demand by flying to regional airports. The best demonstration of the use of secondary airports is the Irish low cost carrier Ryanair, which operates mainly to regional airports in its vast European network. Among these are some once-marginal airports, such as Beauvais-Tillé, some 85km from Paris, whose catchment area has a population of only 800,000 people. Despite this, it has seen its traffic grow from 64,000 passengers in 1996 to close to four million last year, thanks largely to marketing by low cost carriers.

The story is similar across the continent: In the decade to 2012, European airports with fewer than five million passengers saw traffic jump by 79 percent; while larger airports grew by just 29 percent.

Such growth in secondary airports has stimulated the economies of much of regional Europe. Research shows that far from cannibalise traffic to major airports, promotion of secondary airports by low-cost carriers also stimulates the full service carriers by increasing awareness of the destination as a whole. In Spain, for example, tourist arrivals to the lesser-known Mediterranean region of Murcia rose some 62 per cent between 2001 to 2011 as low cost carriers added flights to the region[5]. Over the same time, arrivals into Barcelona's region of Catalonia also jumped 42 per cent.

The same is true in Australia: In the first year of Air New Zealand services from Auckland to Sunshine Coast, New Zealand arrivals to Brisbane also grew by three per cent. This year there will be around 13,000 seats available into the Sunshine Coast from New Zealand, while both Brisbane and Gold Coast also have record numbers of services from New Zealand. It is a classic example of growing the pie.

Growing New Zealand visitation by opening up new routes to regional airports represents a great opportunity for tourism operators in NSW and Queensland in particular. Unlike tourists from emerging source markets of Asia, who tend to restrict themselves to either large cities or well-defined tourist destinations[6], New Zealanders have the highest dispersal rate of all international tourists to Australia, with only 49 per cent of the 7.5 million room nights spent by New Zealanders within the four major gateway cities of Brisbane, Melbourne, Perth and Sydney[7].. By Contrast, growth from Asian markets in recent years has come largely from the low dispersal class of visitors, with only 16 per cent of Chinese tourists dispersing outside the major cities[8].

For this reason, the federal government researched which airports could sustain direct services from New Zealand. Consultants GHD found ten currently-domestic airports could support international flights if the barriers to entry were lower[9] (see map left).

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[5] World Tourism Organization (2012), *Global Report on Aviation: Responding to the needs of new tourism markets and destinations*
[6] Tourism Australia, *2012-15 Corporate Plan*
[7] Tourism Australia, *New Zealand Market Profile*
[8] *Understanding Dispersal Of Asian Visitors The International Visitor Survey Data Mining Project - Summary* Tourism Research Australia December 2013
[9] GHD, Department of Resources, Energy and Tourism (Tourism Division). *Trans-Tasman Project - Final Report*, June 2012

Five of these had immediate potential (Avalon, Canberra, Hobart, Newcastle and Sunshine Coast) and a five further had longer term or seasonal potential (Ballina-Byron, Coffs Harbour, Great Barrier Reef Airport on Hamilton Island, Mackay and Townsville). TTF analysis would add Brisbane Wellcamp to the list of east coast airports with potential to welcome international flights as well as Broome on the west coast for services to Indonesia and Singapore.

Of the airports considered likely candidates for international flights, only the Sunshine Coast has thus far succeeded in trialling international services. The lack of movement for other airports on the issue is chiefly due to two significant barriers erected by the federal government:

1. **Physical infrastructure costs:** Dedicated border agency-mandated facilities require a capital outlay that is too onerous for most small regional airports to undertake.
2. **Border agency staffing costs:** Border agency staffing levels were previously prescribed and geared towards large airports and make marginal services unfeasible. Unless designated a full international airport, there is an additional charge for border agency staff.

Both of these considerations represent barriers to growth of regional tourism. The physical infrastructure requirements laid out in the International Airport Operators' Guidelines have been applied non-uniformly across aspiring airports. The additional staffing levies placed on regional airports wishing to trial border agency budgets act as a disincentive that make levelling the playing field with larger airports even harder. This is the case even where infrastructure requirements are met, such as in Townsville or Canberra.

This situation can be resolved through reform to the way international airports are designated and categorised. Recognition of the lower risk profile associated with flights to and from New Zealand should allow for the creation of a new designation of limited international airport. Border agency staffing should be scaled back accordingly, with technology allowing remote oversight of small, mobile teams.

This would incur additional cost for the federal government. For example, Customs charged the airport operator around $64,000 its staffing during the 2012 trial at Sunshine Coast. In subsequent years Agriculture staffing has also been charged back, taking the total to around $120,000 over the 20-week 2014 season. This is dwarfed by the contribution to the local economy that these flights created, with some $14.5 in additional tourism expenditure in 2012 rising to $24 million in 2014. This contributes over $2 million in Goods and Services Tax receipts levied on accommodation and hospitality.

The need for a new 'limited international airport' category
The designation of international airports is an obligation of national governments,[10] and in Australia, at present there are five official categories of international airport ranging from the major international category that covers Adelaide, Brisbane, Cairns, Darwin, Melbourne, Sydney and Perth, to the non-scheduled restricted international category in use only at Horn Island in Cape York. In addition, there are international airports on Australia's external territories[11] classified separately and those only to be used as alternates in an emergency.

However, in the middle lies the category 'restricted use' in which most aspirant international airports sit. These airports do not (with the exception of Gold Coast Airport) have regular international flights but have border agency passenger processing available if pre-arranged.

Making the leap between a restricted airport and a major international airport is evidently too hard. Even with regular international operations, Gold Coast Airport has not made the jump and nor did Newcastle or Townsville when they had international regular passenger transport flights in the past five years.

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[10] *Air Navigation Act 1920*, Australian Government
[11] Designated International Airports in Australia, Department of Infrastructure and Regional Development, February 2014

What is missing in Australia is a middle category of airport that allows for limited international operation. In contrast to Australia, the New Zealand authorities understand the economic value of direct international flights to smaller communities[12] and have an intermediate category of 'limited international' airport, restricted by hours of operation. In addition to its two full international airports with permanent border agency staffing (Auckland and Christchurch), New Zealand has four limited international airports with a part-time customs and immigration presence, which take flights only from Australia.

Similarly, countries in Europe with a large number of smaller international airports have adopted risk-based models. France, for example, has two tiers of international airports and at smaller ones uses unified border agency teams to process low-risk passengers from within Europe[13] (see box, overleaf).

National Passenger Processing Committee

Reform to the Australian international airport regulation has been attempted before. The previous federal government placed an emphasis on expanding international services at regional airports[14]. To streamline the process, the National Passenger Processing Committee (NPPC) was established to consider applications by domestic airports wanting international status[15].

When an Australian airport applies to be designated as an international airport, the NPPC judges it against the following principles:

a. Is it in the national interest?
b. Does it demonstrate a viable business case with planned international air services?
c. Does the airport face unreasonable barriers to entry into the market?
d. Would services lead to a diminution of federal services at existing airports?
e. Would it be self-funded in terms of any additional infrastructure costs?
f. Is it subject to a transparent, efficient approval process?

In too many cases, the first of these, the economic benefits such services would bring to a region (the national interest test), is not given prominence over other concerns. Principally, the issue of border agent staffing levels is often a barrier to entry.

Despite the establishment of the committee, no airport has yet succeeded in switching status or even obtaining the restricted use category. The Air New Zealand services to Sunshine Coast Airport are still officially deemed trials, despite being scheduled for the next three years, due in part to inconsistencies between the aims of the NPPC process and the proscriptive rules governing international airport operations.

Most of these are laid down by the inter-agency International Airport Operator's Guide[16] maintained by the Border Agencies' Accommodation Group. Its checklist sets out over 100 terminal infrastructure changes and mandatory government agency facilities an airport needs to make before it can accommodate international flights.

Many of the requirements are straightforward, such as the ability to separate baggage carousels and an area in which to process passengers, but many others, such as staff canteens, showers and separate offices for each agency, appear excessive set in the context of smaller airports[17].

Other requirements that have clear operational objectives (such as dedicated observable-plumbing toilets for suspected drug smuggling or multiple secure holding rooms for violent criminals) might also be unaffordable for smaller airports.

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12 Border Sector Strategy 2008-2013 - A Framework for Collaboration for Border Sector Agencies New Zealand Border Sector Governance Group, 2008
13 Présence douanière sur l'aéroport de Beauvais. Réponse a la question écrite n° 18832 de M. André Vantomme (Oise - SOC) JO Sénat, 21 July 2005
14 *National Aviation Policy Whitepaper: Flight Path To The Future* Department of Infrastructure, Transport, Regional Development and Local Government, Canberra, December 2009
15 Procedures for International Flights at Non-International Airports, Department of Infrastructure and Regional Development February 2014
16 *International Airport Operator's Guide*, Department of Infrastructure and Transport, Version 1.2.1
17 *International Airport Operator's Guide,* Department of Infrastructure and Transport, Version 1.2.1

LIMITED INTERNATIONAL AIRPORTS – SOME KEY CHARACTERISTICS		
Airport size	**Border processing regime**	**Possible operating restrictions**
Regional city	Fly-in force augmented by locally-based Australian Border Force or Agriculture officers	No simultaneous international flights
>5 million passengers	Single team performing customs, immigration and quarantine checks	90-minute turnaround time to allow for single border agency team to service inbound and outbound flights
Code C aircraft	Handheld passport readers and high speed video links for interviews and secondary screening	Six-hour daily limit on border agency staffing to permit forward roster planning
OTS Cat II	Combined border agency facilities including interview rooms and recreation spaces	Duty free sales restricted to sealed bags or outbound fulfilment
Integrated terminal	Memorandum of understanding with state police forces	Eligible for Enhanced Regional Package where applicable

Swing gates open a new paradigm

Adelaide Airport was able to break the previous rigid rule of having separate terminals for international and domestic travellers through its pioneering use of temporary secure (or 'interoperable') walls within one terminal. This concept of swing gates allows airports to re-use domestic gates for international flights[18] and is the cornerstone of many aspirant international airports' design for international processing facilities. However, beyond this breakthrough, little progress has been made in adapting the International Airport Operator's Guide to reflect the risk-based approach now adopted by all border agencies. While no eventuality is impossible, there is now a far lower likelihood of the worst kinds of biosecurity breach, air security incident or immigration violation envisaged by the guidelines, given the extensive use of advanced passenger data.

As has been illustrated by the Sunshine Coast trials and in applications to the NPPC by other aspiring international airports, there has been significant flexibility shown in regard to the application of these rules. Nevertheless, the Sunshine Coast Airport's terminal modifications cost the local council over $1 million.

Both Sunshine Coast and Newcastle airports have received incomplete and at time contradictory information from border agencies and the Department of Infrastructure and Regional Development over the specifications of their terminal design. This may have been due to the prescriptive nature of the existing rules set against a willingness to compromise demonstrated by some border agencies.

Instead, a new minimum infrastructure requirement appropriate to limited international services needs to be defined. This would not compromise Australia's border security, as technology both in terminal design and passenger profiling would ensure the same rules would apply to regional airports as do currently to major airports. The reform started by the creation of the NPPC needs to be completed and the red tape around the designation process needs to be cut.

The best way to encapsulate the reform already underway is to create a new category of international airport. The baseline for such a designation could be Category II airports defined by the Office for Transport

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[18] Fordham, G., *Planning Airport Terminals for Flexibility and Change*, Airport Engineering Innovation, Best Practice and the Environment. Barton, ACT: Institution of Engineers, Australia, 1995: 45-49. National conference publication (Institution of Engineers, Australia) ; no. 95/07

Security. These are typically regional airports whose security risk is deemed lower than major capital city airports, but who nonetheless possess inspection points and full security screening equipment[19].

A further consideration is the physical size of aircraft likely to be processed. Runway lengths and terminal size preclude most regional airports from handling intercontinental long-range passenger jets. Nor would the economics of such routes be viable. Infrastructure requirements should therefore be appropriate for the volume of passengers likely from narrowbody passenger jets.

Reducing border staffing levels at smaller international airports

A further barrier, in addition to the infrastructure requirements, is the additional burden of border agency staffing levies applied to non-designated airports wishing to trial international services.

Without designation as a full international airport, any regional airport wishing to trial international services or offer seasonal flights is liable to pay an additional levy to fund the border agencies required to process the flights. This equates to between $11 and $50 per passenger on top of the $55 Passenger Movement Charge designed to fund passenger processing at international airports.

Yet without proving the viability of a service through a series of trials, airport operators would be loath to embark on the lengthy and costly process of obtaining full international status.

The current situation also leads to confusion and business uncertainty. For example, despite being officially designated as only a restricted use international airport, Gold Coast Airport does not pay an additional levy for its customs, immigration and quarantine inspections, as its predecessor Coolangatta Airport launched international services before the rules were established. Conversely, Newcastle Airport received Customs clearance of flights from Norfolk Island *ex gratia* until those flights ended in 2011, but has been advised it would be liable for the levy if it establishes new services.

Airports have little oversight as to how much provision of service will cost, making it hard to plan for new services. A recent example is Townsville, whose terminal meets the international requirements, but lacks permanent border staff. The cost of processing passengers arriving and departing on planned services to Bali, Indonesia, would have been $1 million per year, or close to an additional cost of $45 per passenger.

Clearly such an impost is unacceptable for airlines starting new routes, which face start-up costs of around $100 million in the first two years.

Since airlines have to recoup the cost of border processing when trialling new international routes to domestic regional airports in Australia, the charge is highly damaging to a new route's viability. To put this in context, the $64,000 charge to Air New Zealand during the 2012 trial to Sunshine Coast for Customs processing at a non-designated airport was split between fewer than 6000 passengers. This equated to a levy of over $11 per head.

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[19] Aviation Transport Security Act (Cth) (2004)

French customs

How France grew regional airports through a two-tier approach

To accommodate the growth of low-cost carriers in Europe in the 1990s, the French government reviewed its border surveillance regime and introduced a distinction between smaller airports handling European traffic and major airports handling long-haul traffic.

From 1995, French national border police (*Direction centrale de la police aux frontières*) are only routinely present at 19 international airports, 13 ferry ports and three international train stations, where they are backed up by the French customs service (*Direction générale des douanes et droits indirects*).

The airports are those where flights arrive from non-European destinations.

Elsewhere, immigration controls are delegated to customs officers, with local police forces patrolling the perimeter during international flight arrivals and departures. France's federal police, the *Gendarmerie nationale*, has responsibility for counterterrorism and aviation security. It maintains offices and permanent stations throughout France not necessarily at airports.

In the wake of the *Charlie Hebdo* newspaper terrorist attacks, the French army has reinforced Gendarmes on patrols at airports.

French chambers of commerce attract new airline routes through marketing support and local government finances terminal upgrades to stimulate tourism. European competition rules permit local government to cover the operating losses of small airports and invest in infrastructure required to house passenger processing

Two-tier model

Other countries faced with the dilemma of increasing international points of entry while maintaining border security have developed streamlined staffing models using technology. Work towards this goal is already well progressed in Australia. Using a risk-based approach, the border agencies handling New Zealand passengers at the Sunshine Coast were able to significantly scale back their presence between the 2012 and 2013 seasons from an average of 20 to eight. This was achieved through delegation of responsibilities and greater use of technology to risk profile passengers.

Counterterrorism controls and aviation security would not be compromised under our proposal for limited international airports. European countries, where the use of secondary airports is common, designate the armed response units of local police forces as officers of first response in case of a serious incident (see box above, *French Customs*).

Thanks to the mandatory collection of advance passenger information system (APIS) by airlines from July, under the limited international airport scenario, airline check-in would be cross referenced against the list of departure prohibition orders (or the 'no-fly list'). A database holding biometric and biographical data would verify legal departure. In the case of departure being denied, police would be alerted to detain or question. If a foreign national fails to exit and overstays their visa, that data would be added to a national criminal database.

Delegated border agency powers

Any new model would be based on the experience gained by the border agencies after three years of trials at Sunshine Coast Airport. Since TTF would expect these small teams to be funded directly from existing border agency appropriations, there is an incentive for the federal government to make these work as efficiently as possible.

If a new category of limited international airport with less onerous infrastructure requirements could be introduced as outlined above, a new small inter-agency border agency force could be deployed to process all elements of passenger clearance.

In New Zealand, for example, teams of as few as six staff meet Australian flights at the limited international airports. Due to the lower risk associated with trans-Tasman flights, New Zealand border agencies operate at lower staffing levels at these ports. To achieve this, customs officers are often proxies for the other agencies under the coordinated border strategy introduced in 2008[20]. The small teams of border staff are backed up by personnel in larger cities, where passengers can be transported to larger airports for further questioning.

In Australia, the creation of the Australian Border Force performing both customs and immigration checks[21] is a step in the right direction. For smaller airports, TTF believes this could go further and this new force could also be delegated biosecurity and human health authority. There should also be consideration of local resources. For example, where there exists Department of Agriculture biosecurity officers in maritime towns, immigration and customs checks could be carried out by these quarantine officers. This would build on an existing memorandum of understanding between Customs and Agriculture to foster close cooperation at minor airports[22].

Technology would allow high definition video links back to central office for unusual quarantine, immigration or disease cases to be assessed. Australian Federal Police functions and Customs' powers of detention would need to be bolstered by state police. The Sunshine Coast Airport has an agreement in place with Queensland Police to be the force of first response in case of an emergency and is developing a protocol detailing the jurisdictional responsibilities in any such situation.

This vision is shared in the Customs Blueprint for Reform 2013-2018, which envisages border force officers deployed regionally by locale or function, using mobile technology to communicate back to larger bases in times of unusual operational needs[23] (see illustration of border officer at Newcastle Airport, below).

The rapid-deployable teams would be based in capital cities in easy access of a major airport and would fly-in, fly-out of regional airports and seaports. Alternatively, where there is an existing Customs presence, such as at the Port of Newcastle, the Port of Geelong or Customs headquarters in Canberra, the same model could apply to cross-trained local teams. The small squads would be in addition to frontline staff at major airports.
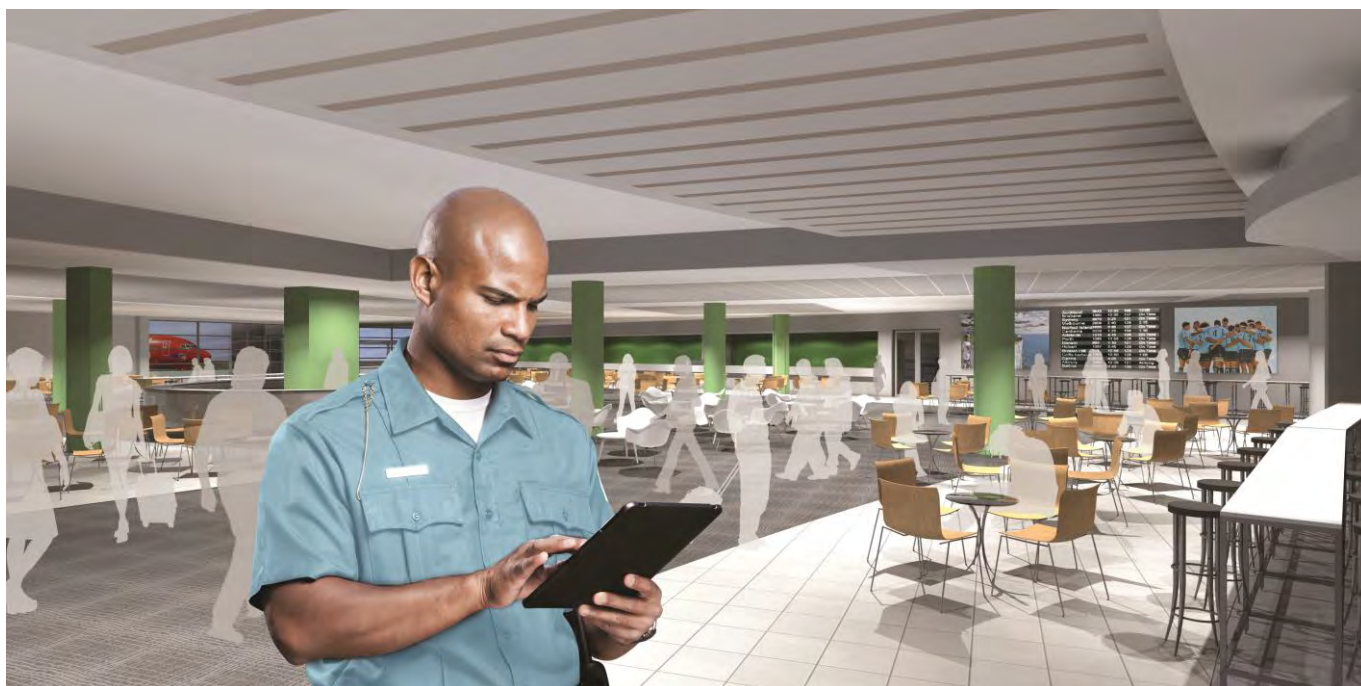
[20] Border Sector Strategy 2008-2013 - A Framework for Collaboration for Border Sector Agencies New Zealand Border Sector Governance Group, 2008

[21] Minister for Immigration and Border Protection, *A new force protecting Australia's borders*, The Hon. Scott Morrison MP Address to the Lowy Institute for International Policy, Sydney Friday, 09 May 2014

[22] *Passenger and crew processing at International and minor airports*, An Annex to the Memorandum of Understanding on the collaborative working relationships between the Australian Customs and Border protection Service and the Department of Agriculture, Fisheries and Forestry, November 2012

[23] *Blueprint for Reform, 2013-2018*, Australian Customs and Border Protection Service, Canberra 2013

Biosecurity controls strengthened through communication

The Department of Agriculture estimates that over 99% of visitors to Australia pose no biosecurity risk, but some 40% of passengers declare an item that requires investigation (typically pre-packaged food)[24]. Flights from New Zealand pose the lowest threat to biosecurity of all origin points, but some risks remain, such as Honey bee mite, apple fire blight and taro planthopper. In most cases any biosecurity risk to Australia is restricted to domestically-grown produce rather than those from commercial agriculture. Additionally, rock snot, a freshwater alga, is spread through insufficient cleaning of anglers' footwear. In all these cases the risk is very low of a biosecurity breach at regional airports.

The Department of Agriculture believes what risk remains can be mitigated by better profiling of passengers, coupled with better pre-departure information on the kind of foodstuffs and plants prohibited in Australia. On Air New Zealand tickets to the Sunshine Coast, for example, tickets contain warnings. This is standard practice in New Zealand, where the fine for non-disclosure of prohibited foodstuffs is also written on the ticket.

A final layer of protection against accidental biosecurity breaches under a lightweight model is the introduction of amnesty bins for produce, akin to those in Tasmania and Western Australia for domestic flights. These could be coupled with warnings of the fines for deliberate non-declaration. In New Zealand, the Declare or Dispose schemes has seen quarantine breaches reduce by 30 per cent since its introduction in 2012.

Conclusion

In summary, TTF believes reform of the current International Airport Operators' Guidelines and the National Passenger process Committee's process for approving new international airports is long overdue. Given the evidence from Europe and North America on the economic benefit international flights to regions can create, TTF welcomes the review into the existing rules. Although thin international routes will not be applicable for every regional airport, there is clearly a brace of medium-sized airports ready and willing to take the next step in their growth. At present the twin demands of overly onerous infrastructure requirements and the additional staffing levy for border agency officers present extremely high hurdles over which few aspiring airports can hope to jump.

The solution is a new category of limited international airport designed to ensure border security at cost more appropriate to low passenger volumes. This needs to be combined with a new, lightweight border agency staffing model, using technology, delegation of service of service and shared resources to deliver a more efficient service at lower cost to government. We believe to that this should be provided free of charge to regional airports, albeit with operational restrictions embedded into service agreements.

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24 Klar, Dr Danielle, Department of Agriculture – Future Directions – presented at the National Passenger Facilitation Committee Meeting, 27 February 2014